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Sobeys Stores Limited

Annual Report 1971



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25th Annual Report

SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES
Year Ending May 8, 1971.

Head Office:

Stellarton Nova Scotia
Established 1906
Incorporated 1946

Auditors:

H. R. Doane and Company
New Glasgow, N.S.

Transfer Agent and Registrar:

Montreal Trust Co. Montreal
Toronto — Saint John — Halifax

Bankers:

The Bank of Nova Scotia

Directors

Merritt G. Crawford
Arthur R. Lundrigan
Jas. A. MacMurray
Henry B. Rhude
David F. Sobey
Donald R. Sobey
Frank H. Sobey
Harold M. Sobey
William M. Sobey
Chas. E. Stanfield

Officers

Frank H. Sobey
Chairman of the Board
William M. Sobey
President
David F. Sobey
Exec. Vice President — Merchandising
Harold M. Sobey
Vice President
Merritt G. Crawford
Secretary — Treasurer

Report of the Directors to the Shareholders

Sales and Earnings

Consolidated sales of the Company herein reported for the first time were \$92,813,222.

Earnings of the Company were lower than the previous year at \$677,503 or 78 cents per common share as compared with \$1.23 the previous year. The deterioration in earnings took place principally during the third quarter of the fiscal year with improvement evident during the fourth quarter. The major contributing factor to the deterioration in earnings was the so-called discount war, which is expected to be prevalent in the retail food industry for some time. However, we, at Sobeys Stores Limited, are learning to live with this type of merchandising and are reducing operating expenses and improving productivity.

Financial

The common shareholders of the Company received dividends of 39 cents per share during the year, and the preference dividend of 6¼ per cent was paid to preferred shareholders. The working capital of the Company increased to \$2,279,177 during the year, and the cash flow from operations was \$1,826,278.

During the year, rights were offered on a pro rata basis to the Class B shareholders to purchase 42,000 shares at \$15.60 per share. These rights were fully subscribed.

Employee Profit-Sharing and Incentives

The Company contributed \$148,279 to employee incentives, profit-sharing and pension plans.

Development

The Company acquired two wholly-owned subsidiaries through the acquisition of all the shares of T. R. A. Limited and Arrowbrook

Enterprises Limited, and the Company also acquired a majority interest in Joy Stores Limited. The operations of these new acquisitions, along with Lumsden Brothers Limited of Burlington, Ont., and Food City Limited of Stellarton, N.S., are included in this financial report.

New stores were opened by the Company in shopping centers located in Dartmouth and Truro, N.S.; Fredericton, N.B.; and St. John's, Nfld. The Company's store in Westville, N.S., was replaced by a modern unit, and new stores are presently underway in New Glasgow, N.S.; Woodstock, N.B., and Gander, Nfld.

The Company is expanding its bakery, prepared foods and non-food merchandising at an accelerated pace and is meeting with satisfactory and profitable results. These departments will play an increasingly important function in the Company's future.

Shopping Centers

The Company has been rapidly expanding its real estate holdings and now owns and operates Avalon Mall, a large enclosed mall shopping center in St. John's, Nfld., and Highfield Square Mall in the downtown center of Moncton, N.B.

To show the effect of the Company's real estate operations, it should be noted that the rental income, which is mostly long term, was \$1,333,400 for the year.

In addition, the Company operates several small shopping centers under long term lease from Sobey Leased Properties Limited.

Customers and Employees

Appreciation is expressed to our many customers, suppliers and employees whose loyalty and contributions have assisted the Company in its expansion and growth.

Consolidated Statement of Earnings

SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES

Year Ended May 8, 1971

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	1971	1970
Income before the undermentioned items	\$3,969,010	\$3,811,869
Expenses		
Administrative and office salaries	850,072	640,149
Audit	22,060	18,087
Contribution to employee pension and profit sharing plan	71,955	66,770
Depreciation	937,992	759,471
Directors' fees	3,023	1,050
Debenture and mortgage interest	628,743	436,941
Interest on current debt	473,486	411,694
Legal	46,783	33,527
Staff incentive plan	76,324	65,659
	<u>3,110,438</u>	<u>2,433,348</u>
	858,572	1,378,521
Other income		
Dividends	45,068	49,511
Earnings before income taxes and minority interest	903,640	1,428,032
Income taxes (deferred \$198,386; 1970 \$583,181)	<u>371,031</u>	<u>700,006</u>
	532,609	728,026
Minority interest	<u>20,947</u>	<u>25,066</u>
Earnings from operations	511,662	702,960
Gain on sale of fixed assets and investments	<u>165,841</u>	<u>285,377</u>
Net earnings	<u>\$ 677,503</u>	<u>\$ 988,337</u>
Earnings per share	<u>\$.78</u>	<u>\$ 1.23</u>

Consolidated Statement of Retained Earnings

SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES

Year Ended May 8, 1971

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	1971	1970
Balance, beginning of year as previously reported	\$5,241,544	\$4,724,710
Adjustment of prior years (Note 10)	24,113	115,036
As restated	5,217,431	4,609,674
Net earnings	677,503	988,337
	5,894,934	5,598,011
Dividends paid — Class "A" common	203,135	187,510
— Class "B" common	91,080	76,320
— Preference	88,695	88,750
Transfer to capital redemption reserve fund arising from redemption of preference shares	4,100	28,000
	387,010	380,580
Balance, end of year	<u>\$5,507,924</u>	<u>\$5,217,431</u>

Consolidated Statement of Source and Application of Funds

SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES
Year Ended May 8, 1971

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Source	1971	1970
Operations		
Net income	\$ 677,503	\$ 988,337
Non cash charges		
Depreciation	937,992	759,471
Provision for future income taxes	198,386	583,181
Minority interest	12,397	16,516
	<u>1,826,278</u>	<u>2,347,505</u>
Deferred tax of subsidiaries acquired	34,803	
Payments received on mortgages and notes		45,454
Proceeds from long term loans	1,652,109	1,033,140
Subsidiary mortgage and loan assumed	256,930	2,505,810
Minority interest in subsidiaries acquired	23,810	
Sale of common shares	655,200	
	<u>4,449,130</u>	<u>5,931,909</u>
Application		
Net additions to fixed assets	1,857,903	5,304,520
Repayment of long term debt	605,730	706,027
Cost of redeeming preference shares	4,100	28,000
Increase in mortgages and loans — net	142,665	
Prior years' income tax adjustments		35,636
Excess of cost of investments over book value, on acquisition	445,870	
Dividends to shareholders	382,910	352,580
	<u>3,439,178</u>	<u>6,426,763</u>
Increase (decrease) in working capital	1,009,952	(494,854)
Working capital, beginning of year	1,269,225	1,764,079
Working capital, end of year	<u>\$2,279,177</u>	<u>\$1,269,225</u>

The accompanying notes form part of this statement.

LIABILITIES

	1971	1970
Current		
Bank loans — secured	\$ 1,992,628	\$ 1,030,000
Banker's acceptance	1,500,000	1,500,000
Payables and accruals	6,076,015	5,660,309
Long term debt payable within one year	558,898	534,644
Estimated income tax payable	90,409	53,231
Deferred revenue	49,107	44,318
	<u>10,267,057</u>	<u>8,822,502</u>
Long term debt (Note 2)	<u>10,050,998</u>	<u>8,747,689</u>
Deferred income taxes	<u>3,343,833</u>	<u>3,110,643</u>
Minority interest in subsidiaries	<u>281,210</u>	<u>245,004</u>
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized		
250,000 6¼% cumulative redeemable preference shares of \$20 par value each, issuable in series		
750,000 Class "A" common shares without nominal or par value		
500,000 Class "B" common shares without nominal or par value		
Issued and outstanding		
70,795 preference shares, 1966 series (Note 7)	1,415,900	1,420,000
520,860 Class "A" common shares	1,739,850	1,739,850
254,000 Class "B" common shares (Note 9)	687,200	32,000
	<u>3,842,950</u>	<u>3,191,850</u>
Capital redemption reserve fund	84,100	80,000
Retained earnings	<u>5,507,924</u>	<u>5,217,431</u>
	<u>9,434,974</u>	<u>8,489,281</u>
	<u>\$33,378,072</u>	<u>\$29,415,119</u>

Signed on behalf of the Board

FRANK H. SOBEY
DirectorWILLIAM M. SOBEY
Director

Notes to Consolidated Financial Statements

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SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES
May 8, 1971

1. Receivables

	1971	1970
Trade	\$1,101,485	\$ 857,340
Extended term	249,808	187,633
Loans	2,130,848	2,119,759
	<u>\$3,482,141</u>	<u>\$3,164,732</u>

2. Long term debt

Company
Sinking fund debentures

Series	Maturity	Authorized	1971	1970
"B" — 5%	Mar. 1/72	\$ 500,000	\$ 175,000	\$ 200,000
"C" — 4¾%	Sept. 1/75	500,000	275,000	290,000
"D" — 6%	May 1/77	750,000	435,000	457,500
"E" — 6%	Mar. 1/81	1,000,000	700,000	730,000
"F" — 6%	Apr. 1/84	1,000,000	790,000	820,000
"G" — 5¾%	Apr. 15/85	500,000	410,000	415,000
"H" — 6%	Nov. 1/85	1,000,000	850,000	880,000
"I" — 7¼%	June 15/87	1,000,000	910,000	940,000
"J" — 8½%	Mar. 1/89	1,000,000	940,000	970,000

9¾% loan, maturing in equal annual installments to 1975	1,007,500	1,072,344
Bank loan, maturing 1978	2,500,000	2,500,000
Term loan, 9¼%, maturing 1996	1,000,000	

Subsidiaries

Bank loan, maturing 1973	400,000	
Mortgages, maturing 1972 to 1976 with interest rates of 6% to 8%	362,896	112,489
	<u>10,755,396</u>	<u>9,387,333</u>

Current maturities (including bonds held for sinking fund purposes)

704,398	639,644
<u>\$10,050,998</u>	<u>\$8,747,689</u>

3. Long term leases

During the year the company paid \$1,776,000 in rentals under lease agreements extending beyond five years from the balance sheet date. The company also received \$1,333,400 rental income as lessor under long term leases.

4. Contingent liabilities

(a) The company has undertaken by several agreements to provide cash to meet any obligations which Canadian Shopping Centres Limited or Sobeys Leased Properties Limited are unable or fail to meet until all of their respective debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be in consideration of the issue to it of an appropriate number of fully paid and non-assessable 6% redeemable, non-voting preference shares of the applicable company. At balance sheet date the aggregate outstanding principal amounts of these debentures were

Canadian Shopping Centres Ltd.	Series A	\$ 340,000
Canadian Shopping Centres Ltd.	Series B	500,000
Sobeys Leased Properties Ltd.	Series A	682,500
Sobeys Leased Properties Ltd.	Series B	1,212,000

(b) The company has guaranteed bank loans with an outstanding balance of \$1,000,000 (U.S.) of Foord Construction Limited.

5. Share purchase warrants

The company has reserved a maximum of 20,000 unissued Class A common shares to satisfy the conditions relating to share purchase warrants issued with the sinking fund debentures, Series J. These share purchase warrants entitle the bearers thereof to purchase 20,000 Class A common shares at the subscription price of \$12 per share up to 4:00 p.m. Atlantic Standard Time on March 1, 1979.

6. Short term loans

The company advances cash from time to time on a demand note basis at current bank rates of interest to Sobeys Leased Properties Limited

and other companies. It also advances funds without interest to these companies for their use in acquiring, constructing and leasing shopping centre properties for and on behalf of the company.

7. Preference shares

The 1966 series preference shares may be called at reducing premiums until October 1, 1971, after which they may be called at par. During the year 205 shares were purchased and cancelled, reducing the issued preference capital to \$1,415,900.

8. Directors and officers remuneration

Total remuneration to officers and directors for the year was \$210,175.

9. Shares issued

During the year the company issued 42,000 class "B" common shares for cash.

10. Income tax reassessment

The adjustment of prior years is the result of an income tax reassessment for 1970 in the amount of \$24,113 and for prior years in the amount of \$115,036. Comparative earnings figures for 1970 have been restated.

11. Principles of consolidation

The accounts of the company and its subsidiaries have been consolidated following purchase accounting principles. During the year three subsidiaries were acquired at a cost of \$445,870 in excess of the book value of the net assets acquired.

The companies consolidated herein are:

Sobeys Stores Limited (including Avalon Mall)
Food City Limited — wholly owned
Highfield Square Limited — wholly owned
Lumsden Brothers Limited — controlled
Arrowbrook Enterprises Limited — wholly owned
Joy Stores Limited — controlled
T. R. A. Limited — wholly owned

12. Sales

Sales on a consolidated basis were \$92,813,222 which represents a considerable increase over the previous year. The acquisition of new subsidiaries contributed significantly to the sales increase; however, on a comparable basis from 1970 to 1971 the overall sales increase was 14%.

Auditors' Report

To the Shareholders

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 8, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors included a general review of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who examined the financial statements of the subsidiary company, Lumsden Brothers Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at May 8, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

New Glasgow, Nova Scotia
June 21, 1971

Review of Financial Growth Since Incorporation

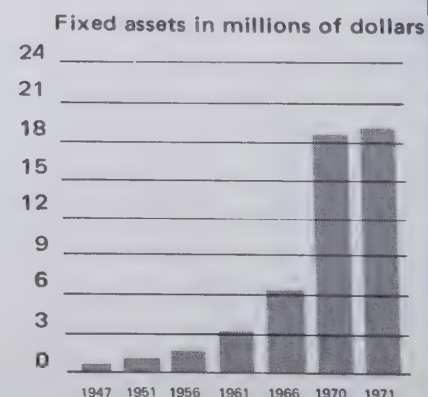
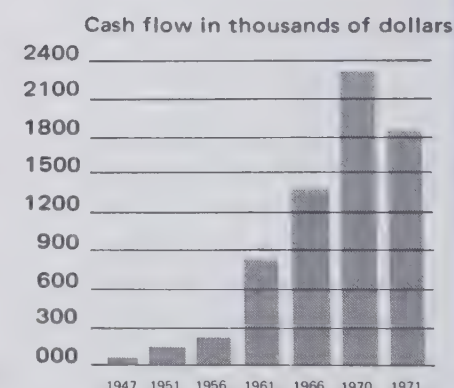
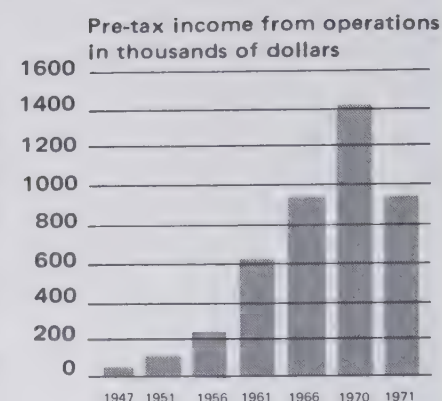
SOBEYS STORES LIMITED AND SUBSIDIARY COMPANIES

Operations	1971	1970
Income from operations	\$ 882,693	\$ 1,402,966
Depreciation	937,992	759,471
Interest on long term debt	628,743	436,941
Cash flow	1,826,278	2,347,505
Income tax	371,031	700,006
Gain on sale of fixed assets and investments	165,841	285,377
Net income after provision for income tax	677,503	988,337

Shareholders information		
Cash flow per share	2.42	3.20
Equity per share	10.64	9.65
Preferred share dividend	6.25%	6.25%
Common share earnings	.78	1.23
Common share dividends	.39	.36
Average number of common shares outstanding	753,860	732,860

Balance sheet		
Working capital	2,279,177	1,269,225
Fixed assets	19,160,180	18,240,269
Long term debt	10,050,998	8,747,689
Net tangible assets per \$1,000 debenture	3,486	3,116

1966	1961	1956	1951	1947
\$ 930,809	\$ 602,353	\$ 236,012	\$ 102,394	\$ 22,538
527,106	211,095	99,472	37,846	10,186
248,133	101,181	60,963	7,808	3,134
1,336,179	882,119	250,178	96,617	29,455
431,455	279,591	108,504	43,959	8,988
214,961	6,652	6,639	335	397
664,315	329,415	134,146	58,771	18,668



AR21

DIRECTORS

MERRITT G. CRAWFORD
WILLIAM G. LUMSDEN
ARTHUR R. LUNDRIGAN
JAS. A. MacMURRAY
HENRY B. RHUDE
DAVID F. SOBEY
DONALD R. SOBEY
FRANK H. SOBEY
HAROLD M. SOBEY
WILLIAM M. SOBEY
CHAS. E. STANFIELD
ARTHUR STEELE

OFFICERS

FRANK H. SOBEY
Chairman of the Board
WILLIAM M. SOBEY
President
DAVID F. SOBEY
Exec. Vice President
J. S. MURCHIE
Vice President
HAROLD M. SOBEY
Vice President
MERRITT G. CRAWFORD
Secretary—Treasurer



SOBEYS

**SOBEYS STORES
LIMITED**

**INTERIM
REPORT**

SOBEYS

**SIX MONTHS
ENDED
NOVEMBER 6
1971**

SOBEYS STORES LIMITED
INTERIM STATEMENT

Six months ended November 6, 1971

TO THE SHAREHOLDERS

Sales for this 26 week period were \$51,482,250, an increase of 12%.

Our increase in sales continued to accelerate in the 2nd quarter. These sales increases were only achieved by sacrificing profit margin in our retail operations and it would appear that price cutting will continue in this industry for some time making it difficult for the Company to obtain normal healthy profits. However the Directors have taken the stand that Sobeys Stores Limited are going to maintain their competitive position in the areas in which they are located and expect these sales increases to continue along with low margins for the foreseeable future.

The company is also moving substantially into the Real Estate Field and are operating two of the finest Shopping Centers in the Atlantic Region, and are also in the process of building a 200,000 square foot enclosed air conditioned mall shopping center in New Glasgow, N.S. which is over 85% leased and our tenants include some of the major retail companies in Canada.

A number of new stores are presently under construction in Shopping Centres and the Company is continuing its planned expansion Programs in the Atlantic Provinces.

WILLIAM M. SOBEY
President

Stellarton, N.S.
December 16, 1971

SOBEYS STORES LIMITED
CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

SIX MONTHS ENDED NOVEMBER 6, 1971

	1971	1970
Net income before income taxes	\$ 419,570	\$ 677,104
Provision for income taxes (Deferred \$83,794; 1970 \$315,471)	201,087	319,146
Net income	218,483	357,958
Preferred share dividend	44,247	44,375
Net income after providing for preferred share dividend	\$ 174,236	\$ 313,583
Earnings per common share	\$.23	\$.43

Sales for the six month period ended November 6, 1971 were \$51,482,250.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(Unaudited)

	1971	1970
Source		
Operations		
Net income	\$ 218,483	\$ 357,958
Non cash charges		
Depreciation	597,933	499,036
Deferred income taxes	83,794	315,471
	900,210	1,172,465
Increase in minority interest	24,164	35,913
Adjustment of prior years' income taxes	22,572	
Increase in long term debt		196,981
Deferred income tax of acquired subsidiaries		34,803
	946,946	1,440,162
Application		
Purchase of fixed assets (net)	709,323	1,308,149
Increase in mortgages, loans and notes receivable	88,097	270,720
Repayment of long term debt	215,385	
Dividends paid	199,219	190,458
Excess of cost of investments over book value on acquisition		445,872
	1,212,024	2,215,199
Decrease in working capital	\$ 265,078	\$ 775,037

SOBEYS STORES LIMITED
INTERIM STATEMENT

Six months ended November 6, 1971

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